

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Webb County, Texas, we offer readers of the County's financial statements, this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2005. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Transmittal Letter (beginning on page vii) and the County's financial statements (beginning on page 19).

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

- The assets of the County exceeded its liabilities at the close of the fiscal year 2005 by \$86,085,892 (*total net assets*). Of this amount, \$19,085,583 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$11,438,766 (15.3%) from the previous year. The most significant change that led to this increase was revenues in excess of expenses of \$11,173,068 from infrastructure and environmental services function in the governmental activities.
- The governmental net assets increased by \$11,329,113 (15.3%) and the business-type net assets increased by \$109,653 (28.6%) from the previous year.

Highlights for Fund Financial Statements

- As of the close of the current fiscal year, the County's governmental funds reported a combined ending fund balance of \$34,176,460, a decrease of \$3,658,218 from the prior year.
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$9,209,024, or 18.5% of total general fund expenditures.

General Financial Highlight

- In May 2005, Webb County issued \$14,775,000 of limited tax refunding bonds. These bonds were issued for the purpose of refunding certain maturities of the outstanding Certificates of Obligation, Series 1999, and Certificates of Obligations, Series 2000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management Discussion and Analysis is intended to serve as an introduction to Webb County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances in a matter similar to the private business sector.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the *financial position* of the County is improving or deteriorating. During 2005, the net assets of the County increased by \$11.4 million.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*, thus being consistent with *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.

The Statement of Net Assets and the Statement of Activities, present information about the two types of County activities:

- **Governmental activities** - All of the County's basic services that are principally supported by property taxes, charges for services, and intergovernmental revenues are considered to be governmental activities. The governmental activities of Webb County include general government, public safety, justice system, health and human services, infrastructure and environmental services, correction and rehabilitation, and community and economic development.
- **Business-type activities** - Other functions of the County that are intended to recover all or a significant portion of their costs through user fees and charges are considered to be business-type activities. This includes the Webb County Water Utility Fund.

The government-wide financial statements can be found on pages 19 – 21 of this report.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds and not the County as a whole. Some funds are required to be established by State

law and by bond covenants. However, the County establishes other funds to help it control and manage money for particular purposes or to show that it is meeting the requirements for the use of certain taxes, grants, and other money. The County's three categories of funds – *governmental, proprietary and fiduciary* use different accounting approaches.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. That information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 150 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Head Start Fund, and Juvenile Youth Village Fund, each of which are considered to be major funds. Information for the other 147 governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *schedules* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 22 - 29 of this report.

Proprietary Funds - The County maintains two different types of proprietary funds, enterprise and internal service funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses an enterprise fund to account for its Water Utility operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for support services provided to other departments, which includes the employees' health benefits and worker compensation funds. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements elsewhere* in this report.

The basic proprietary fund financial statements can be found on pages 30 - 33 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The accounting used for fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The basic fiduciary fund financial statements can be found on pages 34 - 35 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 - 79 of this report.

Required Supplementary Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes a schedule concerning the County's progress in funding its obligation to provide pension benefits to county employees, and budgetary comparison schedules for the general fund and major special revenue fund (Head Start Program). Required supplementary information can be found on pages 81 - 87 of this report.

Other Information: The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 89 - 429 of this report.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

The government-wide financial analysis focuses on the net assets and changes in net assets of the County's governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the County's assets exceeded its liabilities by \$86,085,892 at September 30, 2005.

Webb County's Net Assets
(in Thousands)

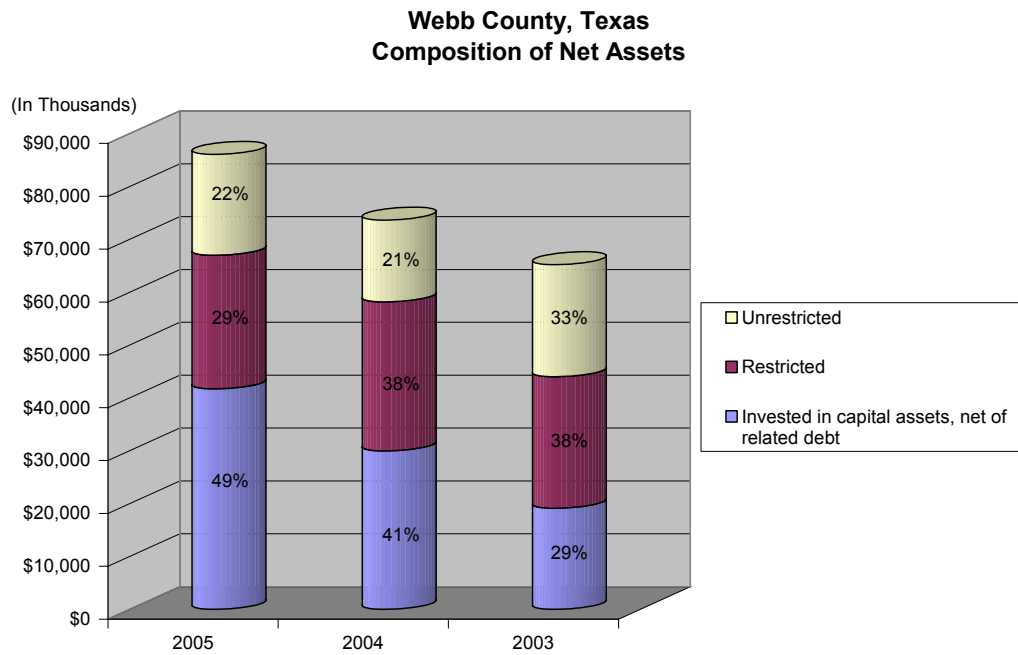
	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 60,932	\$ 67,854	\$ 597	\$ 1,846	\$ 61,529	\$ 69,700
Capital Assets	107,474	95,061	6,444	4,665	113,918	99,726
Total assets	168,406	162,915	7,041	6,511	175,446	169,426
Long-term liabilities outstanding	69,635	73,695	6,249	5,768	75,884	79,463
Other liabilities	13,177	15,952	300	363	13,477	16,315
Total liabilities	82,812	89,647	6,548	6,131	89,360	95,778
Net assets:						
Invested in capital assets, net of related debt	41,561	29,800	177	188	41,738	29,988
Restricted	24,911	27,977	352	206	25,263	28,183
Unrestricted	19,122	15,491	(36)	(14)	19,086	15,477
Total net assets	\$ 85,593	\$ 73,268	\$ 492	\$ 380	\$ 86,086	\$ 73,648

By far, the largest portion of the County's net assets, \$41,737,617 (48.5%) reflects investment in buildings, vehicles, equipment, infrastructure and construction and infrastructure in progress, less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$25,262,692 (29.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$19,085,583 (22.2%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Webb County as a whole is able to report positive balances in all three categories (invested in capital assets - net of related debt, restricted and unrestricted) of net assets. However, business-type activities did report a deficit balance of \$36,414 in the unrestricted portion of net assets.

The following chart represents the composition of net assets for Webb County as a whole for the past three years.



The following table demonstrates the County's net assets increased by \$11,438,766 from the prior year.

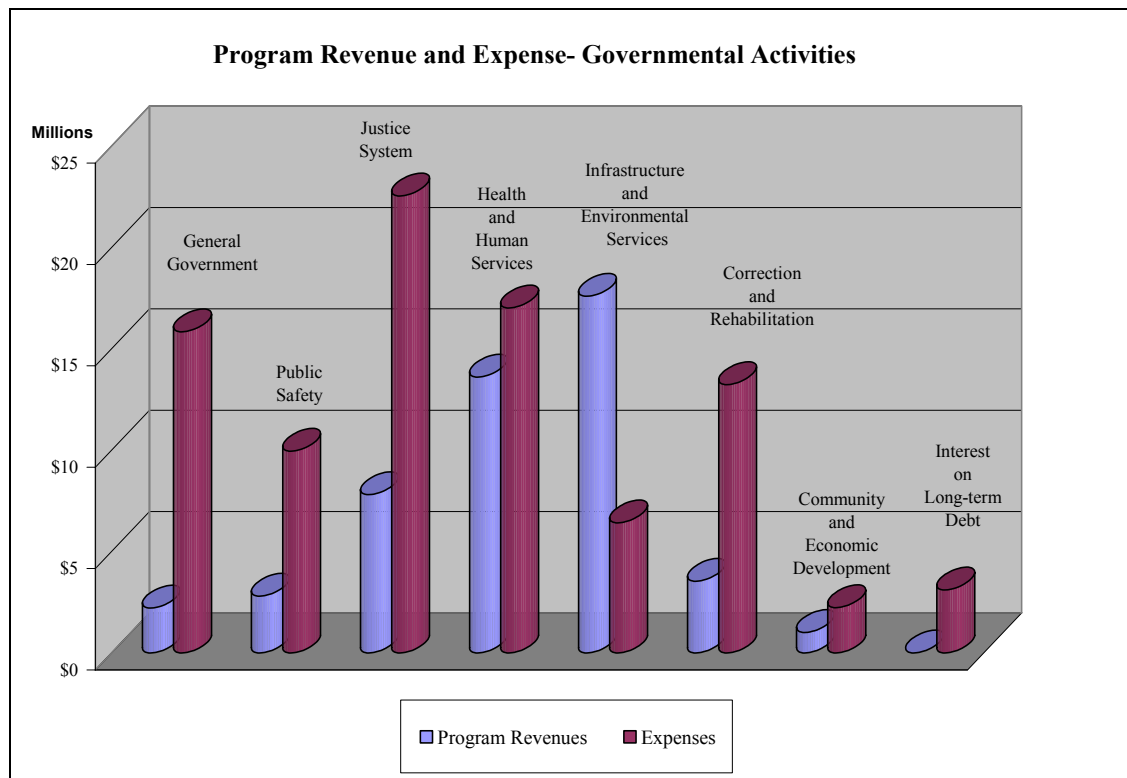
Webb County, Texas						
Changes in Net Assets						
(in Thousands)						
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program revenues:						
Charges for services	\$ 12,485	\$ 10,958	\$ 1,364	\$ 1,334	\$ 13,848	\$ 12,292
Operating grants and contributions	25,379	23,607			25,379	23,607
Capital grants and contributions	10,684	7,451			10,684	7,451
General revenues:						
Property taxes	38,674	35,897			38,674	35,897
Other taxes	11,567	10,478			11,567	10,478
Other	2,932	2,225	60	26	2,991	2,251
Total Revenues	\$ 101,721	\$ 90,617	\$ 1,423	\$ 1,360	\$ 103,144	\$ 91,977
EXPENSES						
Program activities						
Primary government:						
Governmental activities:						
General Government	\$ 15,830	\$ 14,586			15,830	\$ 14,586
Public Safety	\$ 9,948	8,857			9,948	8,857
Justice System	\$ 22,537	19,319			22,537	19,319
Health and Human Services	\$ 17,015	15,475			17,015	15,475
Infrastructure and Environmental Services	\$ 6,412	6,468			6,412	6,468
Correction and Rehabilitation	\$ 13,233	12,347			13,233	12,347
Community and Economic Development	\$ 2,230	1,568			2,230	1,568
Interest on Long-term Debt	\$ 3,107	3,366			3,107	3,366
Business-type Activities						
Webb County Water Utility			\$ 1,393	\$ 1,323	1,393	1,323
Total Expenses	\$ 90,312	\$ 81,986	\$ 1,393	\$ 1,323	\$ 91,705	\$ 83,309
Increase (decrease) in net assets						
before transfers	\$ 11,409	\$ 8,631	\$ 30	\$ 37	\$ 11,439	\$ 8,668
Transfers	(80)		80			
Increase in net assets	\$ 11,329	\$ 8,631	\$ 110	\$ 37	\$ 11,439	\$ 8,668
Net assets - beginning of year (restated)	74,264	64,637	383	343	74,647	64,980
Net assets - end of year	\$ 85,593	\$ 73,268	\$ 492	\$ 380	\$ 86,086	\$ 73,648

During the current fiscal year, the County's total revenues increased by \$11,166,947 (12.1%) and total expenses increased by \$8,396,450 (10.1%). Total revenues for this year were more than total expenses resulting in an increase in *total net assets* of \$11,438,766. Most of the growth reflects an increase in revenues from capital grants and contributions and property taxes as compared to the previous year.

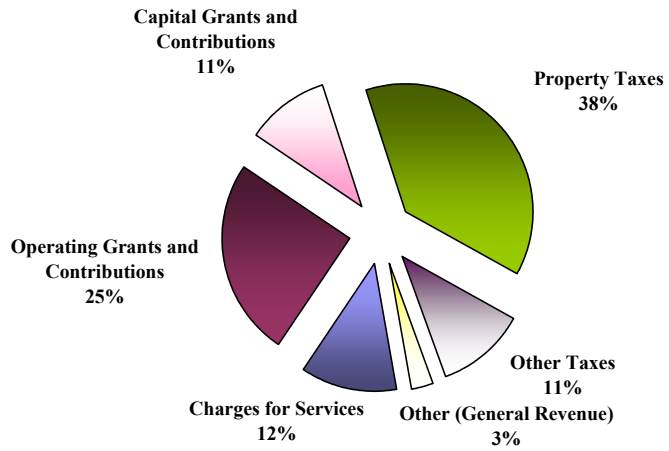
Governmental Activities

Governmental activities increased the County's net assets by \$11,329,113, resulting in 99.0% of the total growth in net assets. Key elements of this increase are as follows:

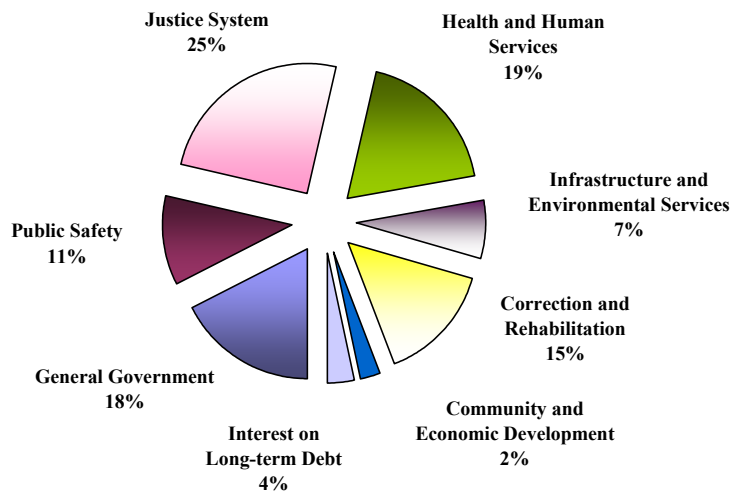
- Property taxes collected increased by \$2.8 million (7.7%) from the previous fiscal year. The increase in revenues is the result of higher assessed taxable property values and residential growth.
- Infrastructure and environmental services had a positive net change of \$11,173,068. Most of this increase is attributed to a capital grant from Texas Water Development Board and Texas Department of Transportation for water and wastewater projects.
- Revenues from charges for services increased by \$1,556,561 (12.7%).
- Special revenue taxes (sales and hotel/motel tax) increased by \$1,088,688 from the previous fiscal year.
- Expenses of governmental activities increased by \$8.3 million which is a 10.2% increase from the prior year.
- The most significant increases in expenses were evident in the functions of community and economic development and justice system by \$661,948 (42.2%) and \$3.2 million (16.7%) from the previous fiscal year expenses, respectively.



Revenues by Source - Governmental Activities



Expenses by Function - Governmental Activities

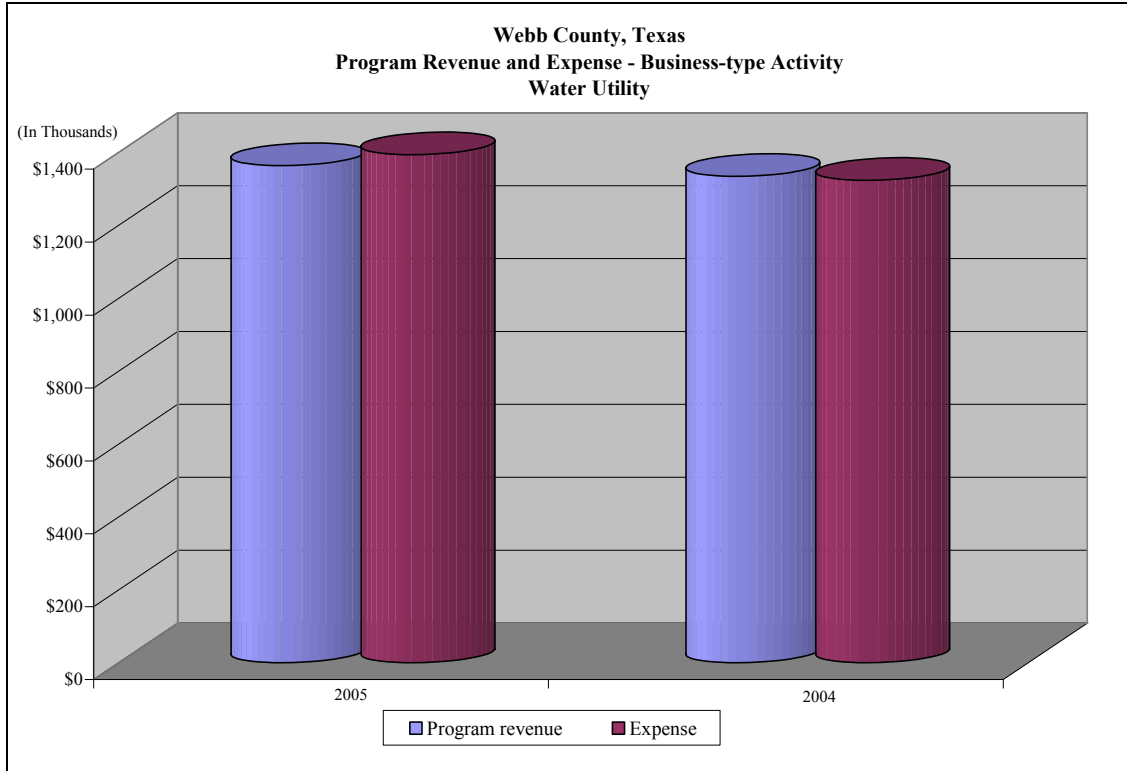


Business-type Activities

Business-type activities increased the County's net assets by \$109,653 which resulted in an ending net asset balance of \$492,408. Key elements of the current year increase in net assets are as follows:

- Transfers in of \$80,000 from the general fund.
- Charges for services increased by a moderate \$29,613 (2.2%), compared to the prior year. This is a result of a modest increase in demand.
- Investment earnings, which are restricted for debt service payments, increased by \$33,087 from the previous year.

The following charts represent the fiscal year trends for the business-type activity.



FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR FUNDS

As noted earlier, Webb County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$34,176,460, a decrease of \$3,658,217 from the prior year.

The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year, unreserved balance of the General Fund was \$9,209,024, while the total fund balance was \$10,102,516. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 18.4 % of total General Fund expenditures.

The Fund Balance of the Webb County's General Fund increased by \$140,480 from the previous fiscal year. Key differences between last year's General Fund activities and this year's include:

- An increase in property values increased property tax revenues by \$3.5 million.
- Receipts from sales and miscellaneous taxes were better than anticipated by \$810,780.
- Expenditures for Health and Human Services increased by \$1.1 million.
- Receipts from intergovernmental revenues decreased by \$2.2 million.

The **Head Start Fund** accounts for resources received by the Department of Health and Human Services - Administration for Children and Families. These resources are used for student's education, nutrition, physical and mental health, disability and medical services as well as parent's literary services. This fund does not contribute to the governmental fund balance at year end as the revenues received directly offset the expenses incurred. In addition to this, Webb County provided in-kind contributions (non-federal share) which exceeded the amount required by \$204,825.

The **Juvenile Youth Village Fund** accounts for the \$11.3 million construction project which will house a juvenile detention center and possibly a juvenile justice alternative education program at a later date. Although investment earnings were earned, fund balance decreased by \$23,567 due to capital outlay expenditures of \$320,291.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- Total *net assets* of the Water Utility Fund at year end totaled \$455,756. Of this amount, 38.8% is invested in capital assets net of related debt. Factors relating to the Water Utility fund have already been addressed in the discussion of the Webb County's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

At year end, general fund expenditures were less than budget estimates by \$951,870. General fund revenues were also less than budgeted estimates by \$857,949 resulting in a positive variance of \$93,921. The most significant variance was for intergovernmental revenues with a \$1.2 million negative variance. In addition, the Webb County Commissioner's Court approved transfers between functions which had no effect in the total appropriated budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental and business type activities as of September 30, 2005, amounted to \$113,917,518 (net of accumulated depreciation). The total increase in the County's net investment in capital asset for the current fiscal year was 14.2%. The investments in capital assets include land, infrastructure, infrastructure in progress, buildings, equipment, furniture and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Infrastructure in progress costs for a water and wastewater project, an international bridge, and for paving roads in colonias. The total costs are \$13,241,918.
- Various ongoing construction projects with a total cost of \$895,205.

- Construction for a Justice of the Peace Courthouse in South Laredo for \$1,078,995. The amount incurred for fiscal year 2005 was \$444,576.
- Addition of new law enforcement vehicles at a cost of \$631,831.

Webb County's Capital Assets (net of depreciation) (in Thousands)					
	Governmental Activities		Business-type Activities		Total
	2005	2004	2005	2004	
Capital assets, not being depreciated:					
Land and improvements	\$ 6,577	\$ 6,577	\$ 216	\$ 216	\$ 6,794
Infrastructure in progress	31,945	19,746	5,452	3,632	37,398
Construction in progress	1,637	3,289			1,637
Total capital assets, not being depreciated	40,159	29,612	5,669	3,848	45,828
Capital assets, being depreciated, net:					
Infrastructure	13,062	12,636	364	374	13,426
Buildings	48,831	47,010	405	417	49,236
Furniture, fixtures and equipment	5,422	5,802	6	25	5,428
Total capital assets, being depreciated, net	67,315	65,448	775	817	68,090
Total	\$ 107,474	\$ 95,061	\$ 6,444	\$ 4,665	\$ 113,918

Additional information on the County's capital assets can be found in note III C on pages 53 - 54 of this report.

Debt Administration

At the end of the current fiscal year, the County had total bond debt outstanding of \$72,179,900. The governmental bond debt is payable from the levy of a direct ad valorem tax on all taxable property located within the County and the business-type debt is payable from Webb County Water Utility self-supporting fees.

The County's total debt decreased by \$3,204,716 (4.3%) from the previous fiscal year.

New borrowing during the year was \$14,775,000 in Limited Tax Refunding Bonds, Series 2005 and lease purchases of \$126,553. Proceeds from the Limited Tax Refunding Bonds, Series 2005 will be used to refund Certificates of Obligations, Series 1999 and 2000.

Webb County's Outstanding Debt
General Obligation
(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Certificates of obligation	\$ 23,736	\$ 37,400	\$ 629	\$ 2,640	\$ 24,365	\$ 40,040
General obligation refunding bonds	7,540	7,610			7,540	7,610
Limited tax refunding bonds	23,183	11,642	1,949		25,132	11,642
Limited tax improvement bonds	10,095	10,510			10,095	10,510
Other lending requirements	1,250	1,755	3,580	3,620	4,830	5,375
Total	\$ 65,805	\$ 68,917	\$ 6,157	\$ 6,260	\$ 71,962	\$ 75,176

The presently outstanding ad valorem tax supported debt of Webb County has an underlying rating of “A2” by Moody’s, “A” by Standard & Poor’s, and “A” by Fitch. By virtue of an insurance policy, the Limited Tax Refunding Bonds, Series 2005, have received a rating of “Aaa” by Moody’s and “AAA” by Standard & Poor’s and Fitch.

Texas Statutes limit the amount of general obligation debt a government entity may issue up to 25% of its total assessed value of real property. The current debt limitation for the County of Webb is \$2,416,151,448 which is significantly in excess of the County’s outstanding general obligation debt.

Additional information on the County’s long-term debt can be found in note III G on pages 57 - 66 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The following economic factors were known as of the printing of this report:

- The unemployment rate for the County of Webb is currently 5.6%, which is a decrease from a rate of 5.9% a year ago. Although this is good news, Webb County’s unemployment rate was still higher than the state and national average.
- Texas Court of Appeals reversed a prior ruling by state District Judge John Dietz that said the county did not need the city's permission to build an international bridge within city limits. Webb County officials would seek to have the case reheard or appeal the decision to a higher court.

- The U.S. Marshals renewed a contract with the Sheriff to house federal inmates in the Webb County Jail. The per diem rate to house federal inmates increased from \$49.43 per day to \$56.84.
- Webb County employer's retirement contribution rate decreased from 7.07% to 6.99% effective January 1, 2006.
- The real property assessed value for calendar year 2005 increased by \$946,152,287 (10.9%) from the previous calendar year.
- Webb County is planning to issue Certificates of Obligation debt in 2006. The expected amount is \$10 million to be used for construction projects and equipment purchases.

All of these factors were considered in preparing the Webb County's budget for the 2005 fiscal year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Webb County Auditor's Office, 1110 Washington Street, Suite 201, Laredo, Texas 78040 or call (956) 523-4016. This report can also be found on the County's website at www.webbcountytx.gov.